

MEMORANDUM

TO: Investment Committee, CalSTRS
FROM: Stephen McCourt, Allan Emkin, Mika Malone, Stephanie Sorg, Meketa Investment Group
DATE: January 11, 2024
RE: Revised Stewardship Priorities

Summary and Recommendation

In December 2023, Staff provided Meketa with proposed revised language for the CalSTRS Stewardship Priorities. The revisions provide a three-year plan, for the Committee's approval. As background, the Stewardship Priorities serve as a governing document that instructs Staff in their efforts to effectively utilize CalSTRS' influence to 1) drive long-term value creation on behalf of California's educators, and 2) promote sustainable business practice and public policies.

In this item, for the 2024 – 2026 time period, Staff is recommending that the Board approve the following three Stewardship Priorities: 1) Corporate and Market Accountability, 2) Net Zero Transition, and 3) Workforce and Communities. It is important to note that the proposed Priorities are not materially different from the previous Priorities¹ (they remain largely the same) but have been repositioned to adapt to the evolving sustainability environment/opportunities and empower Staff to use their influence to achieve the highest level of positive change. ***In summary, Meketa concurs with Staff's proposed revisions to the Stewardship Priorities that will be put in place for the next three years.***

Discussion

In January 2020, the Board approved the Stewardship Priorities to prioritize and focus Staff's activities on the most relevant issues for engagement that mitigate risk, support long-term value creation, and promote practices that provide for a sustainable financial market. The Priorities communicate to a wider audience (including stakeholders, investment peers, and other market participants) that have an interest in how CalSTRS uses its position as a large, long-term value-oriented asset owner to influence companies and policy makers. In order to be successful and achieve meaningful outcomes aligned with CalSTRS goals, there are Focus Areas within each Stewardship Priority that help guide and inform specific engagement activities undertaken by Staff.

Given the increasing interest in a wide range of sustainability matters and the role of investors in addressing them, the Priorities focus specific engagement issues over others so that Staff can allocate resources appropriately, to best align with CalSTRS' goals, and affect change where CalSTRS has the greatest potential for success and largest impact. The Stewardship Priorities are determined based upon the three following premises:

¹ Previous Priorities: Corporate and Market Accountability, Board Effectiveness, Net Zero Transition, Responsible Firearms.



1. Relevance to the long-term performance of the Portfolio.
2. Capacity to influence meaningful change based on the tools available to staff as shareholders.
3. Ability to deliver measurable outcomes.

Within each of the three proposed Stewardship Priorities, Staff has outlined Focus Areas where CalSTRS Staff has conviction and can achieve impact with the tools and resources available as investors. In conjunction with the Focus Areas detailed below, Staff developed Engagement Plans to achieve the goals for each category, which will be reviewed annually.

1. Corporate and Market Accountability

Focus Areas:

- a. Board Effectiveness
- b. Sustainability Disclosures
- c. Shareholder Rights

2. Net Zero Transition

Focus Areas:

- a. Highest Emitters
- b. Nature-based Solutions

3. Workforce and Communities

Focus Areas:

- a. Workforce Culture and Engagement
- b. Just Transition in the Utility Sector
- c. Responsible Firearms

Corporate and Market Accountability is intended to mitigate portfolio risk through influencing regulators, standard-setters, and policy makers to promote sustainable markets, effective and diverse boards, and protect shareholder rights. Climate change presents a material and significant risk to society, the economy, and the CalSTRS portfolio. Through the Net Zero Transition Priority, CalSTRS is committed to engaging with some of the highest carbon emitting companies to reduce emissions in the global economy. This is aligned with CalSTRS pledge to achieve net zero portfolio emissions by 2050, or sooner.

The Workforce and Communities is a noteworthy update to the Stewardship Priorities as a company's workforce is an important asset for any organization. Corporate boards should play an active role in properly overseeing the management of human capital, ensuring investors have adequate disclosures to oversee workforce-related risks and opportunities. This Priority pulls Focus Areas from the previous Stewardship Priorities (Board Effectiveness and Responsible Firearms) and empowers CalSTRS to commit to influencing portfolio companies to ensure a healthy and engaged workforce and to be good stewards in the communities in which they operate.

If you have any questions, please do not hesitate to contact us at (760) 795-3450.

SBS/SPM/AE/MLM/jls